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OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON 25, D. C.



July 30, 1957

INTERNATIONAL SECURITY AFFAIRS

OSD DECLASSIFICATION/RELEASE INSTRUCTIONS ON FILE

MEMORANDUM FOR THE CHAIRMAN OF THE EDAC EXECUTIVE COMMITTEE

FROM: Department of Defense Member

SUBJECT: Question 3b.(1) and (2) of JCS Memorandum, dated 13 June 1957

1. The subject memorandum, "Future Course of Action with Respect to COCOM/CHINCOM" originated by the Joint Chiefs of Staff, has been adopted by the Armed Forces Policy Council and therefore represents the position of the Department of Defense. The proposal for review in the subject paragraph was made with full knowledge of the widely divergent opinions on the use of sanctions as well as differing legal interpretations of related legislation. This divergence of opinion is of concern to the Department of Defense because it affects the implementation of the economic defense policy and its relation to areas of specific interest to the Department of Defense, as follows:

a. Under present circumstances few if any positive results could be expected from broad imposition of sanctions against friendly nations failing to cooperate with the U.S. in the trade control field. Their reaction would be extreme, and in view of the long-standing reluctance of the U.S. to invoke penalty provisions of existing law, their annoyance would be understandable. Nevertheless, U.S. assistance, and other benefits and privileges deriving from close association with the U.S. represent for these countries assets which far outweigh the commercial benefits they obtain from trading with Communist countries. It seems clear that limited sanctions, carefully selected for maximum effect with minimum disruption to mutual security programs and political relations are justified, and would result in a net security advantage.

b. U.S. Foreign Aid now consists principally of direct support of friendly military forces. Actions which significantly interfere with military assistance have an immediate bearing on the defense capability of U.S. Allies. The threat to withhold all such assistance as a means of inducing cooperation in trade control activities might succeed in some cases without adverse effect on their cooperation and military capability. However, there is a grave risk that some major European Allies might seriously impair their military strength by refusal to "give in" to U.S. pressure. Since the consequences would be felt both directly on their defense capability and indirectly on their economy, this extreme procedure should not be employed.

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c. The growing awareness that multilateral controls are not adequately restricting the flow of strategic goods to the Communist Bloc requires a careful scrutiny of U.S. trade controls to see whether restrictions of access to U.S. material and know-how can be utilized as a means of limiting exports of friendly countries to the Bloc of goods which the U.S. believes contribute to the war potential of the Sino-Soviet Bloc.

Three types of ^{activities} (action) for example are considered to be feasible:

- (1) Control of U.S. exports which are identical with or contribute to the manufacture of products exported by friendly country to a Sino-Soviet destination,
- (2) Control over subsidiaries or affiliates of U.S. firms,
- (3) Denial of technology, patent information or licensee privileges.

As a case in point in illustration of the above, it will be noted that over the past year the trade control participating countries have approximately tripled their shipments of iron and steel to the Bloc. This item accounted for the largest volume of shipments under the exceptions procedure to Communist China in 1956. This trade has and will improve the war potential of the Sino-Soviet bloc, which by chain action, will involve greater Defense expenditures to maintain a satisfactory deterrent position. At the same time, these same countries were large importers of heavy melting scrap from the U.S. and are continuing to press for larger allocations. This condition has created a shortage of scrap in the U.S. to the extent that it has materially affected the cost of steel products. In turn, this increasing cost has had a significant bearing on the purchasing power of the Defense dollar.